

PART 652 - FEDERAL AGRICULTURAL MORTGAGE CORPORATION FUNDING AND FISCAL AFFAIRS

Authority: Secs. 4.12, 5.9, 5.17, 8.11, 8.31, 8.32, 8.33, 8.34, 8.35, 8.36, 8.37, 8.41 of the Farm Credit Act (12 U.S.C. 2183, 2243, 2252, 2279aa-11, 2279bb, 2279bb-1, 2279bb-2, 2279bb-3, 2279bb-4, 2279bb-5, 2279bb-6, 2279cc); sec. 514 of Pub. L. 102-552, 106 Stat. 4102; sec. 118 of Pub. L. 104-105, 110 Stat. 168.

Subpart A - Investment Management

§ 652.1 Purpose.

This subpart contains the Farm Credit Administration's (FCA) rules for governing liquidity and non-program investments held by the Federal Agricultural Mortgage Corporation (Farmer Mac). The purpose of this subpart is to ensure safety and soundness, continuity of funding, and appropriate use of non-program investments considering Farmer Mac's special status as a Government-sponsored enterprise (GSE). The subpart contains requirements for Farmer Mac's board of directors to adopt policies covering such areas as investment management, interest rate risk, and liquidity reserves. The subpart also requires Farmer Mac to comply with various reporting requirements.

[70 FR 40644, July 14, 2005]

§ 652.5 Definitions.

For purposes of this subpart, the following definitions will apply:

Affiliate means any entity established under authority granted to the Corporation under section 8.3(b)(13) of the Farm Credit Act of 1971, as amended.

Asset-backed securities (ABS) means investment securities that provide for ownership of a fractional undivided interest or collateral interests in specific assets of a trust that are sold and traded in the capital markets. For the purposes of this subpart, ABS exclude mortgage securities that are defined below.

Eurodollar time deposit means a non-negotiable deposit denominated in United States dollars and issued by an overseas branch of a United States bank or by a foreign bank outside the United States.

Farmer Mac, Corporation, you, and your means the Federal Agricultural Mortgage Corporation and its affiliates.

FCA, our, or we means the Farm Credit Administration.

Final maturity means the last date on which the remaining principal amount of a security is due and payable (matures) to the registered owner. It does not mean the call date, the expected average life, the duration, or the weighted average maturity.

General obligations of a state or political subdivision means:

(1) The full faith and credit obligations of a state, the District of Columbia, the Commonwealth of Puerto Rico, a territory or possession of the United States, or a political subdivision thereof that possesses general powers of taxation, including property taxation; or

(2) An obligation that is unconditionally guaranteed by an obligor possessing general powers of taxation, including property taxation.

Government agency means an agency or instrumentality of the United States Government whose obligations are fully and explicitly guaranteed as to the timely repayment of principal and interest by the full faith and credit of the United States Government.

Government-sponsored agency means an agency, instrumentality, or corporation chartered or established to serve public purposes specified by the United States Congress but whose obligations are not explicitly guaranteed by the full faith and credit of the United States Government, including but not

limited to any Government-sponsored enterprise.

Liquid investments are assets that can be promptly converted into cash without significant loss to the investor. A security is liquid if the spread between its bid price and ask price is narrow and a reasonable amount can be sold at those prices promptly.

Long-Term Standby Purchase Commitment (LTSPC) is a commitment by Farmer Mac to purchase specified eligible loans on one or more undetermined future dates. In consideration for Farmer Mac's assumption of the credit risk on the specified loans underlying an LTSPC, Farmer Mac receives an annual commitment fee on the outstanding balance of those loans in monthly installments based on the outstanding balance of those loans.

Market risk means the risk to your financial condition because the value of your holdings may decline if interest rates or market prices change. Exposure to market risk is measured by assessing the effect of changing rates and prices on either the earnings or economic value of an individual instrument, a portfolio, or the entire Corporation.

Maturing obligations means maturing debt and other obligations that may be expected, such as buyouts of long-term standby purchase commitments or repurchases of agricultural mortgage securities.

Mortgage securities means securities that are either:

(1) Pass-through securities or participation certificates that represent ownership of a fractional undivided interest in a specified pool of residential (excluding home equity loans), multifamily or commercial mortgages, or

(2) A multiclass security (including collateralized mortgage obligations and real estate mortgage investment conduits) that is backed by a pool of residential, multifamily or commercial real estate mortgages, pass-through mortgage securities, or other multiclass mortgage securities.

(3) This definition does not include agricultural mortgage-backed securities guaranteed by Farmer Mac itself.

Nationally recognized statistical rating organization (NRSRO) means a rating organization that the Securities and Exchange Commission recognizes as an NRSRO.

Non-program investments means investments other than those in:

(1) "Qualified loans" as defined in section 8.0(9) of the Farm Credit Act of 1971, as amended; or

(2) Securities collateralized by "qualified loans."

Program assets means on-balance sheet "qualified loans" as defined in section 8.0(9) of the Farm Credit Act of 1971, as amended.

Program obligations means off-balance sheet "qualified loans" as defined in section 8.0(9) of the Farm Credit Act of 1971, as amended.

Regulatory capital means your core capital plus an allowance for losses and guarantee claims, as determined in accordance with generally accepted accounting principles.

Revenue bond means an obligation of a municipal government that finances a specific project or enterprise, but it is not a full faith and credit obligation. The obligor pays a portion of the revenue generated by the project or enterprise to the bondholders.

Weighted average life (WAL) means the average time until the investor receives the principal on a security, weighted by the size of each principal payment and calculated under specified prepayment assumptions.

[70 FR 40644, July 14, 2005]

§ 652.10 Investment management and requirements.

(a) Investment policies--board responsibilities. Your board of directors must adopt written policies for managing your non-program investment activities. Your board must also ensure that management complies with these policies and that appropriate internal controls are in place to prevent loss. At least annually, your board, or a designated subcommittee of the board, must review these

investment policies. Any changes to the policies must be adopted by the board. You must report any changes to these policies to FCA's Office of Secondary Market Oversight within 10 business days of adoption.

(b) Investment policies--general requirements. Your investment policies must address the purposes and objectives of investments, risk tolerance, delegations of authority, exception parameters, securities valuation, internal controls, and reporting requirements. Furthermore, the policies must address the means for reporting, and approvals needed for, exceptions to established policies. Investment policies must be sufficiently detailed, consistent with, and appropriate for the amounts, types, and risk characteristics of your investments.

(c) Investment policies--risk tolerance. Your investment policies must establish risk limits and diversification requirements for the various classes of eligible investments and for the entire investment portfolio. These policies must ensure that you maintain prudent diversification of your investment portfolio. Risk limits must be based on the Corporation's objectives, capital position, and risk tolerance. Your policies must identify the types and quantity of investments that you will hold to achieve your objectives and control credit, market, liquidity, and operational risks. Your policies must establish risk limits for the following four types of risk:

(1) Credit risk. Your investment policies must establish:

(i) Credit quality standards, limits on counterparty risk, and risk diversification standards that limit concentrations based on a single or related counterparty(ies), a geographical area, industries or obligations with similar characteristics.

(ii) Criteria for selecting brokers, dealers, and investment bankers (collectively, securities firms). You must buy and sell eligible investments with more than one securities firm. As part of your annual review of your investment policies, your board of directors, or a designated subcommittee of the board, must review the criteria for selecting securities firms. Any changes to the criteria must be approved by the board. Also, as part of your annual review, the board, or a designated subcommittee of the board, must review existing relationships with securities firms. In addition, the board, or a designated subcommittee of the board, must be notified before any changes to securities firms are made.

(iii) Collateral margin requirements on repurchase agreements. You must regularly mark the collateral to market and ensure appropriate controls are maintained over collateral held.

(2) Market risk. Your investment policies must set market risk limits for specific types of investments, and for the investment portfolio or for Farmer Mac generally. Your board of directors must establish market risk limits in accordance with these regulations (including, but not limited to, §§ 652.15 and 652.40) and our other policies and guidance. You must document in the Corporation's records or minutes any analyses used in formulating your policies or amendments to the policies.

(3) Liquidity risk. Your investment policies must describe the liquidity characteristics of eligible investments that you will hold to meet your liquidity needs and the Corporation's objectives.

(4) Operational risk. Investment policies must address operational risks, including delegations of authority and internal controls in accordance with paragraphs (d) and (e) of this section.

(d) Delegation of authority. All delegations of authority to specified personnel or committees must state the extent of management's authority and responsibilities for investments.

(e) Internal controls. You must:

(1) Establish appropriate internal controls to detect and prevent loss, fraud, embezzlement, conflicts of interest, and unauthorized investments.

(2) Establish and maintain a separation of duties and supervision between personnel who execute investment transactions and personnel who approve, revalue, and oversee investments.

(3) Maintain records and management information systems that are appropriate for the level and complexity of your investment activities.

(f) Securities valuations.

(1) Before you purchase a security, you must evaluate its credit quality and price sensitivity to changes in market interest rates. You must also verify the value of a security that you plan to purchase,

other than a new issue, with a source that is independent of the broker, dealer, counterparty, or other intermediary to the transaction. Your investment policies must fully address the extent of the prepurchase analysis that management needs to perform for various classes of instruments. For example, you should specifically describe the stress tests in § 652.40 that must be performed on various types of mortgage securities.

(2) At least monthly, you must determine the fair market value of each security in your portfolio and the fair market value of your whole investment portfolio. In doing so you must also evaluate the credit quality and price sensitivity to the change in market interest rates of each security in your portfolio and your whole investment portfolio.

(3) Before you sell a security, you must verify its value with a source that is independent of the broker, dealer, counterparty, or other intermediary to the transaction.

(g) *Reports to the board of directors.* At least quarterly, Farmer Mac's management must report to the Corporation's board of directors, or a designated subcommittee of the board:

(1) On the performance and risk of each class of investments and the entire investment portfolio;

(2) All gains and losses that you incur during the quarter on individual securities that you sold before maturity and why they were liquidated;

(3) Potential risk exposure to changes in market interest rates and any other factors that may affect the value of your investment holdings;

(4) How investments affect your overall financial condition;

(5) Whether the performance of the investment portfolio effectively achieves the board's objectives; and

(6) Any deviations from the board's policies. These deviations must be formally approved by the board of directors.

[70 FR 40645, July 14, 2005]

§ 652.15 Interest rate risk management and requirements.

(a) The board of directors of Farmer Mac must provide effective oversight (direction, controls, and supervision) to the interest rate risk management program and must be knowledgeable of the nature and level of interest rate risk taken by Farmer Mac.

(b) The management of Farmer Mac must ensure that interest rate risk is properly managed on both a long-range and a day-to-day basis.

(c) The board of directors of Farmer Mac must adopt an interest rate risk management policy that establishes appropriate interest rate risk exposure limits based on the Corporation's risk-bearing capacity and reporting requirements in accordance with paragraphs (d) and (e) of this section. At least annually, the board of directors, or a designated subcommittee of the board, must review the policy. Any changes to the policy must be approved by the board of directors. You must report any changes to the policy to FCA's Office of Secondary Market Oversight within 10 business days of adoption.

(d) The interest rate risk management policy must, at a minimum:

(1) Address the purpose and objectives of interest rate risk management;

(2) Identify and analyze the causes of interest rate risks within Farmer Mac's existing balance sheet structure;

(3) Require Farmer Mac to measure the potential impact of these risks on projected earnings and market values by conducting interest rate shock tests and simulations of multiple economic scenarios at least quarterly;

(4) Describe and implement actions needed to obtain Farmer Mac's desired risk management objectives;

(5) Document the objectives that Farmer Mac is attempting to achieve by purchasing eligible investments that are authorized by § 652.35 of this subpart;

(6) Require Farmer Mac to evaluate and document, at least quarterly, whether these investments have actually met the objectives stated under paragraph (d)(4) of this section;

(7) Identify exception parameters and post approvals needed for any exceptions to the policy's requirements;

(8) Describe delegations of authority; and

(9) Describe reporting requirements, including exceptions to policy limits.

(e) At least quarterly, Farmer Mac's management must report to the Corporation's board of directors, or a designated subcommittee of the board, describing the nature and level of interest rate risk exposure. Any deviations from the board's policy on interest rate risk must be specifically identified in the report and approved by the board, or a designated subcommittee of the board.

[70 FR 40646, July 14, 2005]

§ 652.20 Liquidity reserve management and requirements.

(a) *Minimum liquidity reserve requirement.* Within 24 months of this rule becoming effective, and thereafter, Farmer Mac must hold cash, eligible non-program investments under § 652.35 of this subpart, and/or on-balance sheet securities backed by portions of Farmer Mac program assets (loans) that are guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act (in accordance with the requirements of paragraphs (b) and (c) of this section), to maintain sufficient liquidity to fund a minimum of 60 days of maturing obligations, interest expense, and operating expenses at all times. You must document your compliance with this minimum reserve requirement at least once each month as of the last day of the month using month end data. Liquid asset values must be marked to market. In addition, you must have the capability and information systems in place to be able to calculate the minimum reserve requirement on a daily basis.

(b) *Free of lien.* All investments held for the purpose of meeting the liquidity reserve requirement of this section must be free of liens or other encumbrances.

(c) *Discounts.* The amount that may be counted to meet the minimum liquidity reserve requirement is as follows:

(1) For cash and overnight investments, multiply the cash and investments by 100 percent;

(2) For money market instruments with maturities of 5 business days or less, multiply the instruments by 97 percent of market value;

(3) For money market instruments with maturities greater than 5 business days and floating rate debt and preferred stock securities, multiply the instruments and securities by 95 percent of market value;

(4) For diversified investment funds, multiply the individual securities in the funds by the discounts that would apply to the securities if held separately;

(5) For fixed rate debt and preferred stock securities, multiply the securities by 90 percent of market value;

(6) For securities backed by Farmer Mac program assets (loans) guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Act, multiply the securities by 75 percent; and

(7) We reserve the authority to modify or determine the appropriate discount for any investment used to meet the minimum liquidity reserve requirement if the otherwise applicable discount does not accurately reflect the liquidity of that investment or if the investment does not fit wholly within one of the specified investment categories. In making any modification or determination, we will consider the liquidity of the investment as well as any other relevant factors. We will provide notice of at least 20 business days before any modified discounts will take effect.

(d) *Liquidity reserve policy--board responsibilities.* Farmer Mac's board of directors must adopt a liquidity reserve policy. The board must also ensure that management uses adequate internal controls to ensure compliance with the liquidity reserve policy standards, limitations, and reporting requirements

established pursuant to this paragraph and to paragraphs (e), (f), and (g) of this section. At least annually, the board of directors or a designated subcommittee of the board must review and validate the liquidity policy's adequacy. The board of directors must approve any changes to the policy. You must provide a copy of the revised policy to FCA's Office of Secondary Market Oversight within 10 business days of adoption.

(e) Liquidity reserve policy--content. Your liquidity reserve policy must contain at a minimum the following:

- (1) The purpose and objectives of liquidity reserves;
- (2) A listing of specific assets, debt, and arrangements that can be used to meet liquidity objectives;
- (3) Diversification requirements of your liquidity reserve portfolio;
- (4) Maturity limits and credit quality standards for non-program investments used to meet the minimum liquidity reserve requirement of paragraph (a) of this section;
- (5) The minimum and target (or optimum) amounts of liquidity that the board believes are appropriate for Farmer Mac;
- (6) The maximum amount of non-program investments that can be held for meeting Farmer Mac's liquidity needs, as expressed as a percentage of program assets and program obligations;
- (7) Exception parameters and post approvals needed;
- (8) Delegations of authority; and
- (9) Reporting requirements.

(f) Liquidity reserve reporting--periodic reporting requirements. At least quarterly, Farmer Mac's management must report to the Corporation's board of directors or a designated subcommittee of the board describing, at a minimum, liquidity reserve compliance with the Corporation's policy and this section. Any deviations from the board's liquidity reserve policy (other than requirements specified in § 652.20(e)(5)) must be specifically identified in the report and approved by the board of directors.

(g) Liquidity reserve reporting--special reporting requirements. Farmer Mac's management must immediately report to its board of directors any noncompliance with board policy requirements that are specified in § 652.20(e)(5). Farmer Mac must report, in writing, to FCA's Office of Secondary Market Oversight no later than the next business day following the discovery of any breach of the minimum liquidity reserve requirement at § 652.20(a).

[70 FR 40646, July 14, 2005]

§ 652.25 Non-program investment purposes and limitation.

(a) Farmer Mac is authorized to hold eligible non-program investments listed under § 652.35 for the purposes of complying with the interest rate risk requirements of § 652.15, complying with the liquidity reserve requirements of § 652.20, and managing surplus short-term funds.

(b) Non-program investments cannot exceed the greater of \$1.5 billion or thirty-five (35) percent of program assets and program obligations, excluding 75 percent of the program assets that are guaranteed by the United States Department of Agriculture as described in section 8.0(9)(B) of the Farm Credit Act of 1971, as amended.

[70 FR 40647, July 14, 2005]

§ 652.30 Temporary regulatory waivers or modifications for extraordinary situations.

Whenever the FCA determines that an extraordinary situation exists that necessitates a temporary regulatory waiver or modification, the FCA may, in its sole discretion:

- (a) Modify or waive the minimum liquidity reserve requirement in § 652.20 of this subpart;

and/or

(b) Modify the amount, qualities, and types of eligible investments that you are authorized to hold pursuant to [§ 652.25](#) of this subpart.

[70 FR 40647, July 14, 2005]

§ 652.35 Eligible non-program investments.

(a) You may hold only the types, quantities, and qualities of non-program investments listed in the following Non-Program Investment Eligibility Criteria Table. These investments must be denominated in United States dollars.

Non-Program Investment Eligibility Criteria Table

ASSET CLASS	FINAL MATURITY LIMIT	NRSRO ISSUE OR ISSUER CREDIT RATING REQUIREMENT	OTHER REQUIREMENTS	MAXIMUM PERCENTAGE OF TOTAL NON-PROGRAM INVESTMENT PORTFOLIO
(1) Obligations of the United States <ul style="list-style-type: none"> Treasuries Other obligations (except mortgage securities) fully insured or guaranteed by the United States Government or a Government agency. 	None	NA	None	None
(2) Obligations of Government-sponsored agencies <ul style="list-style-type: none"> Government-sponsored agency securities (except mortgage securities). Other obligations (except mortgage securities) fully insured or guaranteed by Government-sponsored agencies. 	None	NA	None	None
(3) Municipal Securities				
• General obligations	10 years	One of the two highest.	None	None
• Revenue bonds	5 years for fixed rate bonds and 10 years for index/floating rate bonds	Highest	None	15%
(4) International and Multilateral Development Bank Obligations	None	None	The United States must be a voting shareholder.	None
(5) Money Market Instruments				
• Federal funds	1 day or continuously callable up to 100 days	One of the two highest short-term.	None	None
• Negotiable certificates of deposit	1 year	One of the two highest short-term.	None	None
• Bankers acceptances	None	One of the two highest short-term.	Issued by a depository institution.	None
• Prime commercial paper	270 days	Highest short-term.	None	None
• Non-callable term Federal funds and Eurodollar time deposits.	100 days	Highest short-term.	None	20%
• Master notes	270 days	Highest short-term.	None	20%
• Repurchase agreements collateralized by eligible investments or marketable securities rated in the highest credit rating category by an NRSRO.	100 days	NA	If counterparty defaults, you must divest non-eligible securities as required under § 652.45.	None

Note: You must also comply with requirements of paragraphs (b), (c), and (d) of this section, and § 651.40 when applicable. "NA" means not applicable.

securities rated in the highest credit rating category by an NRSRO.			eligible securities as required under § 652.45.	
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Note: You must also comply with requirements of paragraphs (b), (c), and (d) of this section, and § 651.40 when applicable. "NA" means not applicable.

ASSET CLASS	FINAL MATURITY LIMIT	NRSRO ISSUE OR ISSUER CREDIT RATING REQUIREMENT	OTHER REQUIREMENTS	MAXIMUM PERCENTAGE OF TOTAL NON- PROGRAM INVESTMENT PORTFOLIO
(6) Mortgage Securities				
<ul style="list-style-type: none"> Issued or guaranteed by the United States or a Government agency. 	None	NA	Stress testing under § 652.40.	None
<ul style="list-style-type: none"> Government-sponsored agency mortgage securities. 	None	One of the two highest.	Stress testing under § 652.40.	50%
<ul style="list-style-type: none"> Non-Government agency or Government-sponsored agency securities that comply with 15 U.S.C. 77d(5) or 15 U.S.C. 78c(a)(41). 	None	Highest	Stress testing under § 652.40.	15% combined
<ul style="list-style-type: none"> Commercial mortgage-backed securities. 	None	Highest	<ul style="list-style-type: none"> Security must be backed by a minimum of 100 loans. Loans from a single mortgagor cannot exceed 5% of the pool. Pool must be geographically diversified pursuant to the board's policy. Stress testing under § 652.40. 	
(7) Asset-Backed Securities secured by: <ul style="list-style-type: none"> Credit card receivables Automobile loans Home equity loans Wholesale automobile dealer loans Student loans Equipment loans Manufactured housing loans 	None	Highest	Maximum of 5-year WAL for fixed rate or floating rate ABS at their contractual interest rate caps.	25% combined
(8) Corporate Debt Securities	5 years	One of the highest two for maturities greater than 3 years, and one of the highest three for maturities of three years or less.	Cannot be convertible to equity securities.	25%
(9) Diversified Investment Funds Shares of an investment company registered under section 8 of the Investment Company Act of 1940.	NA	NA	The portfolio of the investment company must consist solely of eligible investments authorized by this section. The investment company's risk and return objectives and use of derivatives must be consistent with FCA guidance and your investment policies.	None, if your shares in each investment company comprise less than 10% of your portfolio. Otherwise counts toward limit for each type of investment.

Note: You must also comply with requirements of paragraphs (b), (c), and (d) of this section, and § 651.40 when applicable. "NA" means not applicable.

			and use of derivatives must be consistent with FCA guidance and your investment policies.	each type of investment.
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Note: You must also comply with requirements of paragraphs (b), (c), and (d) of this section, and § 652.40 when applicable. "NA" means not applicable.

(b) Rating of foreign countries. Whenever the obligor or issuer of an eligible investment is located outside the United States, the host country must maintain the highest sovereign rating for political and economic stability by an NRSRO.

(c) Marketable investments. All eligible investments, except money market instruments, must be readily marketable. An eligible investment is marketable if you can sell it promptly at a price that closely reflects its fair value in an active and universally recognized secondary market. You must evaluate and document the size and liquidity of the secondary market for the investment at time of purchase.

(d) Obligor limits.

(1) You may not invest more than 25 percent of your regulatory capital in eligible investments issued by any single entity, issuer or obligor. This obligor limit does not apply to Government-sponsored agencies or Government agencies. You may not invest more than 100 percent of your regulatory capital in any one Government-sponsored agency. There are no obligor limits for Government agencies.

(2) Obligor limits for your holdings in an investment company. You must count securities that you hold through an investment company towards the obligor limits of this section unless the investment company's holdings of the security of any one issuer do not exceed 5 percent of the investment company's total portfolio.

(e) Preferred stock and other investments approved by the FCA.

(1) You may purchase non-program investments in preferred stock issued by other Farm Credit System institutions only with our written prior approval. You may also purchase non-program investments other than those listed in the Non-Program Investment Eligibility Criteria Table at paragraph (a) of this section only with our written prior approval.

(2) Your request for our approval must explain the risk characteristics of the investment and your purpose and objectives for making the investment.

[70 FR 40647, July 14, 2005]

§ 652.40 Stress tests for mortgage securities.

(a) You must perform stress tests to determine how interest rate changes will affect the cashflow and price of each mortgage security that you purchase and hold, except for adjustable rate mortgage securities that reprice at intervals of 12 months or less and are tied to an index. You must also use stress tests to gauge how interest rate fluctuations on mortgage securities affect your capital and earnings. The stress tests must be able to measure the price sensitivity of mortgage instruments over different interest rate/yield curve scenarios and be consistent with any asset liability management and interest rate risk policies. The methodology that you use to analyze mortgage securities must be appropriate for the complexity of the instrument's structure and cashflows. Prior to purchase and each quarter thereafter, you must use the stress tests to determine that the risk in the mortgage securities is within the risk limits of your board's investment policies. The stress tests must enable you to determine at the time of purchase and each subsequent quarter that the mortgage security does not expose your capital or earnings to excessive risks.

(b) You must rely on verifiable information to support all your assumptions, including prepayment and interest rate volatility assumptions. You must document the basis for all assumptions that you use to evaluate the security and its underlying mortgages. You must also document all subsequent changes in your assumptions. If at any time after purchase, a mortgage security no longer complies with requirements in this section, Farmer Mac's management must report to the Corporation's board of directors in accordance with § 652.10(g).

[70 FR 40650, July 14, 2005]

§ 652.45 Divestiture of ineligible non-program investments.

(a) Divestiture requirements.

(1) Initial divestiture requirements. Within 6 months of this rule's effective date, you must divest of all ineligible non-program investments or securities unless we approve, in writing, a plan that authorizes you to divest the instruments over a longer period of time. An acceptable plan generally would require you to divest of the ineligible investments or securities as quickly as possible without substantial financial loss.

(2) Subsequent divestiture requirements. Subsequent to the initial divestiture period set forth in paragraph (a)(1) of this section, you must divest of an ineligible non-program investment or security within 6 months unless we approve, in writing, a plan that authorizes you to divest the instrument over a longer period of time. An acceptable plan generally would require you to divest of the ineligible investment or security as quickly as possible without substantial financial loss.

(b) Reporting requirements. Until you divest of the ineligible non-program investment or security, you must report at least quarterly to your board of directors and to FCA's Office of Secondary Market Oversight about the status and performance of the ineligible instrument, the reasons why it remains ineligible, and the manager's progress in divesting of the investment.

[70 FR 40650, July 14, 2005]

Subpart B - Risk-Based Capital Requirements

§ 652.50 Definitions.

For purposes of this subpart, the following definitions will apply:

Farmer Mac, Corporation, you, and your means the Federal Agricultural Mortgage Corporation and its affiliates as defined in subpart A of this part.

Our, us, or we means the Farm Credit Administration.

Regulatory capital means the sum of the following as determined in accordance with generally accepted accounting principles:

- (1)** The par value of outstanding common stock;
- (2)** The par value of outstanding preferred stock;
- (3)** Paid-in capital, which is the amount of owner investment in Farmer Mac in excess of the par value of stock;
- (4)** Retained earnings; and,
- (5)** Any allowances for losses on loans and guaranteed securities.

Risk-based capital means the amount of regulatory capital sufficient for Farmer Mac to maintain positive capital during a 10-year period of stressful conditions as determined by the risk-based capital stress test described in § 652.65.

[71 FR 77253, Dec. 26, 2006]

§ 652.55 General.

You must hold risk-based capital in an amount determined in accordance with this subpart.

[71 FR 77254, Dec. 26, 2006]

§ 652.60 Corporation board guidelines.

(a) Your board of directors is responsible for ensuring that you maintain total capital at a level that is sufficient to ensure continued financial viability and provide for growth. In addition, your capital

must be sufficient to meet statutory and regulatory requirements.

(b) No later than 65 days after the beginning of Farmer Mac's planning year, your board of directors must adopt an operational and strategic business plan for at least the next 3 years. The plan must include:

- (1) A mission statement;
- (2) A review of the internal and external factors that are likely to affect you during the planning period;
- (3) Measurable goals and objectives;
- (4) Forecasted income, expense, and balance sheet statements for each year of the plan; and,
- (5) A capital adequacy plan.

(c) The capital adequacy plan must include capital targets necessary to achieve the minimum, critical and risk-based capital standards specified by the Act and this subpart as well as your capital adequacy goals. The plan must address any projected dividends, equity retirements, or other action that may decrease your capital or its components for which minimum amounts are required by this subpart. You must specify in your plan the circumstances in which stock or equities may be retired. In addition to factors that must be considered in meeting the statutory and regulatory capital standards, your board of directors must also consider at least the following factors in developing the capital adequacy plan:

- (1) Capability of management;
- (2) Strategies and objectives in your business plan;
- (3) Quality of operating policies, procedures, and internal controls;
- (4) Quality and quantity of earnings;
- (5) Asset quality and the adequacy of the allowance for losses to absorb potential losses in your retained mortgage portfolio, securities guaranteed as to principal and interest, commitments to purchase mortgages or securities, and other program assets or obligations;
- (6) Sufficiency of liquidity and the quality of investments; and,
- (7) Any other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities, or other conditions warranting additional capital.

[71 FR 77254, Dec. 26, 2006]

§ 652.65 Risk-based capital stress test.

You will perform the risk-based capital stress test as described in summary form below and as described in detail in [Appendix A](#) to this subpart. The risk-based capital stress test spreadsheet is also available electronically at www.fca.gov. The risk-based capital stress test has five components:

(a) Data requirements. You will use the following data to implement the risk-based capital stress test.

(1) You will use Corporation loan-level data to implement the credit risk component of the risk-based capital stress test.

(2) You will use Call Report data as the basis for Corporation data over the 10-year stress period supplemented with your interest rate risk measurements and tax data.

(3) You will use other data, including the 10-year Constant Maturity Treasury (CMT) rate and the applicable Internal Revenue Service corporate income tax schedule, as further described in [Appendix A](#) to this subpart.

(b) Credit risk. The credit risk part estimates loan losses during a period of sustained economic stress.

(1) For each loan in the Farmer Mac I portfolio, you will determine a default probability by using the logit functions specified in [Appendix A](#) to this subpart with each of the following variables:

- (i) Borrower's debt-to-asset ratio at loan origination;
- (ii) Loan-to-value ratio at origination, which is the loan amount divided by the value of the

property;

(iii) Debt-service-coverage ratio at origination, which is the borrower's net income (on- and off-farm) plus depreciation, capital lease payments, and interest, less living expenses and income taxes, divided by the total term debt payments;

(iv) The origination loan balance stated in 1997 dollars based on the consumer price index; and,

(v) The worst-case percentage change in farmland values (23.52 percent).

(2) You will then calculate the loss rate by multiplying the default probability for each loan by the estimated loss-severity rate, which is the average loss of the defaulted loans in the data set (20.9 percent).

(3) You will calculate losses by multiplying the loss rate by the origination loan balances stated in 1997 dollars.

(4) You will adjust the losses for loan seasoning, based on the number of years since loan origination, according to the functions in Appendix A to this subpart.

(5) The losses must be applied in the risk-based capital stress test as specified in [Appendix A](#) to this subpart.

(c) Interest rate risk.

(1) During the first year of the stress period, you will adjust interest rates for two scenarios, an increase in rates and a decrease in rates. You must determine your risk-based capital level based on whichever scenario would require more capital.

(2) You will calculate the interest rate stress based on changes to the quarterly average of the 10-year CMT. The starting rate is the 3-month average of the most recent CMT monthly rate series. To calculate the change in the starting rate, determine the average yield of the preceding 12 monthly 10-year CMT rates. Then increase and decrease the starting rate by:

(i) 50 percent of the 12-month average if the average rate is less than 12 percent; or

(ii) 600 basis points if the 12-month average rate is equal to or higher than 12 percent.

(3) Following the first year of the stress period, interest rates remain at the new level for the remainder of the stress period.

(4) You will apply the interest rate changes scenario as indicated in [Appendix A](#) to this subpart.

(5) You may use other interest rate indices in addition to the 10-year CMT subject to our concurrence, but in no event can your risk-based capital level be less than that determined by using only the 10-year CMT.

(d) Cashflow generator.

(1) You must adjust your financial statements based on the credit risk inputs and interest rate risk inputs described above to generate pro forma financial statements for each year of the 10-year stress test. The cashflow generator produces these financial statements. You may use the cashflow generator spreadsheet that is described in [Appendix A](#) to this subpart and available electronically at www.fca.gov. You may also use any reliable cashflow program that can develop or produce pro forma financial statements using generally accepted accounting principles and widely recognized financial modeling methods, subject to our concurrence. You may disaggregate financial data to any greater degree than that specified in [Appendix A](#) to this subpart, subject to our concurrence.

(2) You must use model assumptions to generate financial statements over the 10-year stress period. The major assumption is that cashflows generated by the risk-based capital stress test are based on a steady-state scenario. To implement a steady-state scenario, when on- and off-balance sheet assets and liabilities amortize or are paid down, you must replace them with similar assets and liabilities. Replace amortized assets from discontinued loan programs with current loan programs. In general, keep assets with small balances in constant proportions to key program assets.

(3) You must simulate annual pro forma balance sheets and income statements in the risk-based capital stress test using Farmer Mac's starting position, the credit risk and interest rate risk components, resulting cashflow outputs, current operating strategies and policies, and other inputs as shown in [Appendix A](#) to this subpart and the electronic spreadsheet available at www.fca.gov.

(e) *Calculation of capital requirement.* The calculations that you must use to solve for the starting regulatory capital amount are shown in [Appendix A](#) to this subpart and in the electronic spreadsheet available at www.fca.gov.

[71 FR 77254, Dec. 26, 2006]

§ 652.70 Risk-based capital level.

The risk-based capital level is the sum of the following amounts:

(a) *Credit and interest rate risk.* The amount of risk-based capital determined by the risk-based capital test under § [652.65](#).

(b) *Management and operations risk.* Thirty (30) percent of the amount of risk-based capital determined by the risk-based capital test in § [652.65](#).

[71 FR 77255, Dec. 26, 2006]

§ 652.75 Your responsibility for determining the risk-based capital level.

(a) You must determine your risk-based capital level using the procedures in this subpart, Appendix A to this subpart, and any other supplemental instructions provided by us. You will report your determination to us as prescribed in § [652.90](#). At any time, however, we may determine your risk-based capital level using the procedures in § [652.65](#) and [Appendix A](#) to this subpart, and you must hold risk-based capital in the amount we determine is appropriate.

(b) You must at all times comply with the risk-based capital levels established by the risk-based capital stress test and must be able to determine your risk-based capital level at any time.

(c) If at any time the risk-based capital level you determine is less than the minimum capital requirements set forth in section [8.33](#) of the Act, you must maintain the statutory minimum capital level.

[71 FR 77255, Dec. 26, 2006]

§ 652.80 When you must determine the risk-based capital level.

(a) You must determine your risk-based capital level at least quarterly, or whenever changing circumstances occur that have a significant effect on capital, such as exposure to a high volume of, or particularly severe, problem loans or a period of rapid growth.

(b) In addition to the requirements of paragraph (a) of this section, we may require you to determine your risk-based capital level at any time.

(c) If you anticipate entering into any new business activity that could have a significant effect on capital, you must determine a pro forma risk-based capital level, which must include the new business activity, and report this pro forma determination to the Director, Office of Secondary Market Oversight, at least 10-business days prior to implementation of the new business program.

[71 FR 77255, Dec. 26, 2006]

§ 652.85 When to report the risk-based capital level.

(a) You must file a risk-based capital report with us each time you determine your risk-based capital level as required by § [652.80](#).

(b) You must also report to us at once if you identify in the interim between quarterly or more frequent reports to us that you are not in compliance with the risk-based capital level required by § [652.70](#).

(c) If you make any changes to the data used to calculate your risk-based capital requirement that cause a material adjustment to the risk-based capital level you reported to us, you must file an amended risk-based capital report with us within 5-business days after the date of such changes;

(d) You must submit your quarterly risk-based capital report for the last day of the preceding quarter not later than the last business day of April, July, October, and January of each year.

[71 FR 77255, Dec. 26, 2006]

§ 652.90 How to report your risk-based capital determination.

(a) Your risk-based capital report must contain at least the following information:

(1) All data integral for determining the risk-based capital level, including any business policy decisions or other assumptions made in implementing the risk-based capital test;

(2) Other information necessary to determine compliance with the procedures for determining risk-based capital as specified in [Appendix A](#) to this subpart; and,

(3) Any other information we may require in written instructions to you.

(b) You must submit each risk-based capital report in such format or medium, as we require.

[71 FR 77255, Dec. 26, 2006]

§ 652.95 Failure to meet capital requirements.

(a) *Determination and notice.* At any time, we may determine that you are not meeting your risk-based capital level calculated according to § 652.65, your minimum capital requirements specified in section 8.33 of the Act, or your critical capital requirements specified in section 8.34 of the Act. We will notify you in writing of this fact and the date by which you should be in compliance (if applicable).

(b) *Submission of capital restoration plan.* Our determination that you are not meeting your required capital levels may require you to develop and submit to us, within a specified time period, an acceptable plan to reach the appropriate capital level(s) by the date required.

[71 FR 77255, Dec. 26, 2006]

§ 652.100 Audit of the risk-based capital stress test.

You must have a qualified, independent external auditor review your implementation of the risk-based capital stress test every 3 years and submit a copy of the auditor's opinion to us.

[71 FR 77255, Dec. 26, 2006]